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AN INTERNATIONAL CONTROLLER

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PREFACE

The North Atlantic Treaty Organization will soon be celebrating its fifth birthday. In this short space of time it has become an important factor in the defense of the free world. News of the activities of the Organization is given wide publicity in the information media of the free nations and the nations behind the "iron curtain" as well. The United States Navy is familiar with the part played by the Supreme Allied Commander Atlantic, who has his headquarters in Norfolk, Virginia, and with the events of Exercise MAINBRACE and Exercise MARINER.

As in all large organizations success depends to a great extent on the personnel and the way in which they accomplish their missions and tasks. Publicity does not normally extend to individuals who go quietly about the business of planning and operating the combined forces of many nations or of managing the finances of the administrative bodies and agencies. For this reason I have attempted to give some recognition to the importance of the Financial Controller to the Supreme Allied Commander Atlantic in the description of some of his duties.

I wish to acknowledge the assistance given me by the personnel of the Budget and Finance Division, Headquarters, Supreme Allied Commander Atlantic; the United States Liaison

Representative to the Supreme Allied Commander Atlantic; and to the Librarian, U.S. Department of State, in providing some of the reference material used.

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PART I

THE NORTH ATLANTIC TREATY ORGANIZATION

CHAPTER I

INTRODUCTION

Organizational Development

The North Atlantic Treaty was signed in Washington, D.C., on April 4, 1949.¹ Twelve nations² joined together for common defense for the first time during a period of peace. These twelve nations agreed to pool their resources as necessary for the preparations and plans for common defense. Such an alliance is accepted without question during periods of aggression when the sovereignty of each member of the alliance is threatened. True, it may be argued that the period just preceding the signing was a troubled one; that there was evidence of active and potential aggression on the part of Soviet Russia; and that the leaders of the nations were in the proper frame of mind for such an alliance at that time. Whatever the underlying reason might have been, the twelve nations signed the Treaty of their own volition and with no sense of forced participation. On February 18, 1952, Greece

¹The North Atlantic Treaty Organization, The NATO Handbook, 2d ed, 2d impression (Utrecht, the Netherlands: Bosch, July, 1953), p.5.

²Belgium, Canada, Denmark, France, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, the United States, and the United Kingdom.

and Turkey voluntarily acceded to the Treaty.¹

The economic, political, military, and sociological aspects of this alliance have been described by qualified writers in these fields.² These aspects have no close significance and will not be discussed in conjunction with the subject of controlling the finances of a military command of NATO.³ It is essential, however, that the reader keep in mind the relationship of the fourteen nations in respect of the financial problem. The nations participate equally in all financial matters except for the actual contribution of funds.⁴ Each has a vote on the expenditure of funds. Each decision must be unanimous. Finally, since all the nations entered NATO free from any influence or coercion and are participating without restrictions from any of the other nations, the moral atmosphere encourages equality of decision.

Development of the organization necessary to implement the Treaty began shortly after it was signed. Article 9 of the Treaty reads:

The Parties hereby establish a council, on which each of them shall be represented, to consider matters concerning the implementation of this Treaty. The council shall be so organized as to be able to meet promptly at any time. The council shall set up subsidiary bodies as may be necessary; in particular it shall establish immediately a defense committee which shall recommend

¹Ibid., p. 16.

²See Bibliography for pertinent references.

³North Atlantic Treaty Organization; the abbreviation has become through common and continued usage virtually the title of the Organization.

⁴Infra, p. 5.

measures for the implementation of Articles 3 and 5.¹

The North Atlantic Council organized itself into an operating body and drafted regulations to govern its meetings and procedures in the future. Various committees and groups were established to carry out some phase of the development. As progress was made some committees were merged with others, superseded, or discarded and other bodies were formed until the organization as it existed in July, 1953, was reached.

NATO is divided into the civilian side and the military side. The North Atlantic Council, its Committees, and the Secretariat make up the civilian side. Exhibit I is the organization chart for this portion. The Secretariat and the Council, which is in continuous session, are located in Paris. The Secretariat is headed by the Secretary-General who is also the Vice-Chairman of the Council. Each of the NATO nations maintains in Paris a delegation for representation on the Council and the Committees. On the military side are the Military Committee, the Military Representatives Committee, the Standing Group, the military commands, and other miscellaneous military agencies. The Military Committee is composed of the Chiefs of Staff of the NATO nations and meets only as may be necessary or when a Ministerial session of the Council is held. The Military Representatives Committee is in continuous session in Washington. The Standing Group acts as the executive body of the Military

¹U.S. Department of State, Division of Publications, Office of Public Affairs, North Atlantic Treaty Organization, Its Development and Significance, Department of State Publication 4630, General Foreign Policy Series 75 (Washington: Government Printing Office, August, 1952), p. 49.

Representatives Committee and is designated by the Council as the superior body to whom the Supreme Commanders are responsible. The relation of the military to the civil side is indicated in Exhibit II, the organization chart for the military side.

Financial Support

When the member nations signed the North Atlantic Treaty they accepted responsibilities of many kinds, not the least of which was the cost involved in its implementation. That the problem of financial support was solved is a tribute to the practical resolution of the signatory nations to further the idealism expressed in the Treaty.

All financial support is derived from contributions of the NATO nations. Basically the costs of a program or the budgeted expenses of an administrative body are divided among the fourteen nations according to a predetermined formula. It is not possible for all expenses to be divided equally among the nations since some are less able to make as large a contribution as others. Weighing the equality of participation against the ability to pay and taking certain other factors into consideration, various formulae have been worked out for the various types of expenses. These formulae are under constant consideration by the representatives of the nations and are changed from time to time to meet changing circumstances. The final formulae are agreed to by all of the fourteen nations before they are used to schedule assessments of the contributions.

The obligations and expenses incurred in implementing

the Treaty fall generally into two distinct classes. The first, and by far the larger, is the infrastructure¹ program. Construction required by an infrastructure program is undertaken by one or more of the NATO nations. Contributions of funds to pay for the construction are made directly to the performing nations. Accounting for such funds is done by the nations concerned and is not within the province of the controllers of the military commands or the civilian agencies.

The second type of expense is that of the annual budgeted costs of the various administrative bodies. Since this type of expense is generally recurring and does not result in anything tangible in the same sense as the infrastructure programs, careful control is maintained within the international bodies of NATO.

Infrastructure is a word coined to stand for the works of a capital nature required to support and sustain military operations. Examples are airfields, roadways, and communication systems. Infrastructure programs are divided into "slices", each "slice" requiring a certain period of time and costing a specified amount of money.

CHAPTER II

FISCAL PROCEDURES

The Budget

Budgeting follows the pattern of the organizational structure of NATO. The Secretary-General is responsible for all financial administration in support of the civil organization. This responsibility is delegated to the Financial Controller of the Secretariat.¹ Budgets prepared by his office are presented to the Civilian Budget Committee² for review and recommendation to the North Atlantic Council.

On the military side budgeting is handled in a similar but more complicated manner. Each Supreme Commander, subordinate commander, and responsible officer of a miscellaneous military agency is responsible for budgeting the operating expenses of his headquarters. The various military budgets are forwarded up the chain of command to the Military Budget Committee.³ The Supreme Commanders review in detail the budgets of the subordinate commanders. The Standing Group⁴ reviews and makes recommendations on the military aspects of all military budgets. The Military Budget Committee conducts the final review and makes its recommendation to the Council.

¹Exhibit I, p. 37.

²Exhibit I, p. 38.

³Exhibit I, p. 38.

⁴Exhibit II, p. 39.

The North Atlantic Council is the final approving body for all budgets. Practically speaking, the Council accepts the recommendations of the Standing Group and of the two Budget Committees. However, approval may in no way be considered perfunctory. Opportunity is always extended by the Council for presentation of testimony in defense of an item which may have received a negative recommendation.

The operating procedure of the Military Budget Committee resulted in 1952 in a serious delay in obtaining the approval of all budgets for 1953. In order to process the budgets more rapidly the Military Budget Committee has since organized working groups to review the individual budgets. These working groups conduct the hearings either at the headquarters of the budgeted activity or at NATO Headquarters in Paris. The reports of the working groups are considered by the full Budget Committee, and the recommendations are those of the full Budget Committee. All of the NATO nations are represented on the Budget Committee and each has an equal voice in the consideration of any item of expense in the budgets.

The budget format is prescribed by the Council and is uniform for all military budgets. The format is divided into two major sections to separate operational expenses from those of a capital nature. The main sections are further broken down into chapters with each chapter subdivided into items and subitems. The chapter breakdown is generally by object of expenditure; e.g., travel, salaries of administrative staff, or purchase of furniture and equipment. Exceptions are by character of expenditure; e.g., expenses of the Supreme

Commander or expenses incurred in exercises or training. The item and subitem breakdown is by specific or less general object of expenditure. The complete budget format is set forth in Exhibit V.

The budget document is divided into three sections. In the first section are the introductory statements, general explanations of proposed expenditures for new activities or the extension or reduction of an existing activity, and the reason for any major increase or decrease in the budget authorization requested. The second section is a comparative financial statement by chapter and item of the estimates for the budgeted year, the estimated expenditures for the current year, and the actual expenditures for the preceding year. In the third section the estimates are set forth in detail by chapter, item, and subitem with sufficient explanation to identify the nature of each proposed expenditure. Justification for the estimates is annexed to the budget document.

Financial Administration

The accounting systems are not uniform throughout NATO. The only uniformity stems from the necessity to classify expenditures and obligations according to the budget format and the requirement to account for the contributions by individual nations. At the headquarters located in Europe the systems generally follow the accepted European methods. The system in use by the Financial Controller on the staff of the Supreme Allied Commander Atlantic is patterned after governmental systems in use in the United States.

The financial year is the period from January 1 to December 31. The accounts are kept open for three months after the end of the year in order to record payment for liabilities incurred during the year. Accounting is on a cash basis. No attempt is made to accrue prepaid expenses or to record depreciation of capital assets. Property and supplies are accounted for separately by the use of custody and inventory records.

No periodic reports of expenditure are required to be made to the Council or to the Budget Committee. The Supreme Commanders require periodic reports from the subordinate commanders. Various internal reports are used at each headquarters for management purposes and internal control. Letter reports of receipt of contributions are made to the Secretary-General.

The annual statements are audited and forwarded to the Council with the report of audit. The Budget Committee, acting for the Council in considering the audit reports, has an opportunity to review the expenditures reported in the annual statements.

The accounts are audited by a Board of Auditors which reports directly to the Council. The members of the Board of Auditors are appointed from the NATO nations and are assisted by staff personnel from the governmental auditing activity of the nations from which they are appointed. The reports of audit are forwarded to the Council via the cognizant Supreme Commander for his comment. Since the Budget Committee is composed of financial representatives of the fourteen nations, the audit

reports are reviewed by it for the Council.

The audit teams usually make a preliminary audit towards the end of the financial year to reduce the work involved in the final audit. The books cannot be closed and the annual statement rendered until after the third month of the following year when all liabilities and obligations have been cleared. The audit teams make the final audit as soon thereafter as possible in order that pertinent information may be available in time for preparation and review of the budget document for the audited year plus two.

The Supreme Commanders are responsible for the financial administration within the military commands. To this end the Financial Controllers, under delegated responsibility and authority, have established systems of internal control to provide for constant supervision of financial transactions and to prevent the misuse of international funds.

The systems are not uniform throughout the military organization since circumstances and conditions are not the same at all headquarters and since the accounting systems are not uniform. In general the systems of internal control provide for examination and approval of any proposed commitment, for insuring receipt and inspection of material prior to payment of invoices, for proper expenditure and custody of material and equipment, for proper administration and custody of funds, for careful and economical purchasing, and for appropriate audits and reports necessary to insure successful operation of the system.

Funding

The approved budget authorizations are financed by contributions from the member nations.¹ Contributions are called for by the Secretary-General in instalments as necessary to meet the requirements of the commands to prevent the accumulation of large balances. The contributions for all headquarters in the organizations of the Supreme Commanders are made to the Supreme Commanders. Funds are provided to the subordinate commands by the Supreme Commanders as necessary. Under certain circumstances the invoices for material and services in support of the subordinates are paid by the Supreme Commanders.

In addition to the general fund to finance the budget authorizations a separate working capital fund has been established for each Supreme Commander. The purpose of this fund is to meet financial requirements, pending receipt of regular contributions. Contributions to the working capital fund are made on the same scale as contributions to the general fund and are carried as a credit to the contributing nations. Separate accounts are maintained and a separate annual statement is rendered for this fund.

There is no central banking arrangement for NATO. Contributions are made through commercial banking establishments. The funds are held on deposit in banks which have been approved by the Secretary-General.

¹Supra, p.5.

PART II

THE SUPREME ALLIED COMMANDER ATLANTIC

CHAPTER III

THE FINANCIAL CONTROLLER

Organization

The Financial Controller on the staff of SACLANT¹ is on an organizational level with the Assistant Chiefs of Staff and reports directly to the Chief of Staff. In this position he has direct access to the Supreme Commander through the Chief of Staff. Exhibit III is the organization chart for the staff of SACLANT.

The organizational location of the Financial Controller allows him to carry out his role of budgetary and financial advisor to SACLANT without interference or restriction from other staff members. Furthermore he receives no administrative control or direction from any authority outside the staff of SACLANT. The Supreme Commander is responsible for the financial operation and administration within his command. Whatever action the Financial Controller may take is done for or by direction of the Supreme Commander.

The Financial Controller has primary responsibility in his capacity of staff advisor to SACLANT. In addition to this he has line responsibility as Chief of the Budget and Finance

¹Supreme Allied Commander Atlantic; the abbreviated term is the accepted title used to represent the Supreme Commander.

Division for the operation of the division. In this capacity he is responsible for the maintenance of proper financial records, the custody and expenditure of funds, the production of instructions to the staff and subordinate commands, the production of the budget, and the production of reports and statements. The dual capacities are divided somewhat between the Financial Controller and the Deputy Financial Controller with the deputy being concerned primarily with the operation of the division.

The Budget and Finance Division is organized to assist the Financial Controller in carrying out his assigned duties. The Deputy Financial Controller is the senior assistant in the division and reports directly to the Financial Controller. The deputy is assisted by two staff units headed by the Administrative Officer and the Planning Officer. The division is divided functionally into three line sections for budget, accounting, and treasury. Exhibit IV is the organization chart for this division.

The staff of SACLANC is an integrated international staff. Many of the staff billets are filled by personnel from NATO nations other than the United States. In line with this policy one of the billets in the Budget and Finance Division is occupied by an officer of the Royal Danish Navy and one is occupied by a British civil servant. The remainder of the billets are filled by officers of the Supply Corps of the United States Navy and by one United States civil service employee. The Financial Controller is an unrestricted line

officer of the United States Navy.

The composition of the division is in no way fixed indefinitely. Any of the billets with two exceptions may be filled by an officer or civilian from any of the NATO nations. The exceptions are the Financial Controller and the Treasury Officer. It is the policy within NATO that the Financial Controller be supplied by the host nation. He need not necessarily be a military officer. The Treasury Officer is required by SACLANT to be an officer of the Supply Corps of the United States Navy.

Clerical assistance is supplied entirely by enlisted personnel of the United States Navy. The enlisted personnel assigned to the Budget and Finance Division are divided among storekeeper and yeoman ratings, both male and female.

Administration of the division presents some interesting personnel complications. At times it is a challenge to the ability of the Financial Controller and his deputy to maintain harmonious relations.

Responsibilities

The mission of the Budget and Finance Division is stated in the general staff instructions. Briefly the mission is the means by which the Supreme Commander has delegated through the Chief of Staff to the Financial Controller responsibility for the accounting, budgetary, financial, and procurement policies and instructions for the headquarters and subordinate commands.

To implement the mission of the division certain duties

have been assigned to the Financial Controller. These assigned duties specify in detail the responsibilities of the Financial Controller. Some of the duties are not those of a staff advisor but are duties of an operating nature. This was dictated by circumstances existent in the staff and may be changed as conditions warrant.

Included within the assigned duties of the Financial Controller are the specific designation to act as principal advisor to SACLANT in budgetary and financial matters; the designation to act as an agent of SACLANT in the presentation of budgets; the directive to review for SACLANT the budget requirements of subordinate commanders; and the directive to formulate for SACLANT the policies, procedures, studies, reports, and directives related to financial and budgetary matters. The Financial Controller is also designated to assist the division heads in the preparation of and to review the justifications for staff division budget requirements.

The assigned duties of an operational nature include the designation as Chief of the Budget and Finance Division, the directive to prepare the budget document for SACLANT Headquarters, and the directive to authorize and control expenditures of international funds in accordance with approved budgets. The Financial Controller is especially designated to review and approve or disapprove requests for material or services, to countersign the checks which may be drawn on the deposit accounts of international funds, and to investigate and approve the expenditure of losses of funds or equipment. Certain duties implied in the designation of Chief of the

Budget and Finance Division and included in the field of responsibility of the Financial Controller are specifically assigned to other personnel within the division.

Operating Instructions

There is no uniform manual to govern the operations of the various NATO controllers. Financial regulations, which are fairly uniform, have been drafted for the military commands. The financial regulations for SACLANT were drafted to fit the situation existent in the staff of SACLANT and were approved by the Military Budget Committee. The budget format¹ is included as an annex to the regulations. To amplify the general terms of the regulations the Financial Controller developed detailed rules for accounting procedures and financial control. Both the regulations and the rules apply to the entire staff and were promulgated by the Supreme Commander rather than the Financial Controller. However, since the Financial Controller has been delegated the authority and responsibility in financial and budgetary matters, these two instructions may be considered as the manual of operation for the Financial Controller and for the Budget and Finance Division.

In order to carry out his duties the Financial Controller finds it necessary from time to time to prepare instructions to the staff and to the subordinate commanders. These instructions are invariably promulgated by the Supreme Commander in order to maintain the status of the Financial Controller as staff advisor.

¹Supra, p.8.

Some Problems

The Financial Controller is faced with the usual problems of administration and relationships in carrying out his duties. Generally the problems are complicated somewhat by the injection of varying national characteristics and personalities.

One major problem arises in the presentation of budget requirements to the Military Budget Committee. Since the members of the Budget Committee are representatives of the NATO nations, there are many national practices and varying views to be considered in respect of a particular proposal. The Financial Controller must be aware of and develop a sensitivity to this factor in presenting justifications if he is to gain favorable recommendation of the proposals.

Another basic problem is to maintain his status as staff advisor to SACLANT and to keep from becoming entangled in the details of control. Generally this requires the Financial Controller to adhere to strict formality in the matter of issuing directives and instructions and to refuse to make any final decisions concerning operations outside the Budget and Finance Division. As long as he is assigned the duty of reviewing requests for material and services the Financial Controller cannot be completely free of the details of control. The solution is to shift to other staff members the responsibility for making the basic decisions involving the expenditure of funds and in educating the staff members, who may be nationals of various NATO nations, in the principles to be considered.

CHAPTER IV

THE FINANCIAL CONTROLLER AND THE BUDGET

Budget Preparation

One of the most important and time-consuming tasks of the Financial Controller is the preparation and presentation of the annual budget document. Assembly of the estimates of proposed expenditures and justifications by the various division heads and the reviews held by the Financial Controller play a large part in the process of educating the division heads in the principles of controlling expenditures. Conceivably the Financial Controller, assisted by the Director of Budget, could prepare the estimates and justifications with no more than a few guiding decisions from other members of the staff. Execution of such a budget would require constant attention from the Financial Controller since he would be the only one aware of what had been requested and what had been approved. In such a situation the Financial Controller would soon be unable to carry on any of his other tasks and would cease to be a staff advisor.

The financial regulations require submission of the budget document to the Standing Group and the Military Budget Committee by 1 September. With this as the ending date a time-table is constructed for the steps in the preparation of

the budget document. A typical time-table follows:

1. 1 July : Issue budget call.
2. 31 July : All divisions submit estimates to Financial Controller.
3. 1-6 August : Director of Budget assembles estimates for preliminary hearings.
4. 7-17 August : Financial Controller conducts hearings with division heads.
5. 18-24 August: Print and assemble budget document.
6. 25 August : Mail budget document to arrive by 1 September.

The date of issuing the budget call should be late enough to permit consideration of information which may be in the audit report of the previous year and to include any decisions which may affect the budget year. On the other hand it must be early enough to allow sufficient time for preparation of the estimates and justifications. The preliminary hearings held by the Financial Controller are of great importance. Ample time must be provided to permit gaining the most value from this process.

The budget call is composed of several parts. The first part is the directive to all staff divisions to prepare and submit the estimates to the Financial Controller by the selected date. In this directive are the assumptions and general conditions to provide guidance in preparing the estimates. Enclosed with the directive is the complete budget format¹ with a general description of the object of expenditure to be included in each heading. Another enclosure is a listing of the budget format aligned with the staff division responsible for preparing

¹Exhibit V, p. 42.

the estimates for each heading. The last enclosure is the sample form to be used in submitting the estimates to the Financial Controller. On the sample form are listed questions to be considered in preparing the estimates and instructions for assembling the justifications.

Assembly of the completed estimates by the Director of Budget includes checking the justifications. The Budget Section is continuously engaged in gathering data which can be used to evaluate the justifications. Any element of a justification which appears to be unsound is referred back to the cognizant division head for clarification or additional information. The Director of Budget also prepares a preliminary comparative schedule to show the estimates against the estimated expenditures for the current year and the actual expenditures for the preceding year. This schedule provides the Financial Controller with a ready check on the continuity of the budget items from year to year and brings to his attention items which should be explained in the introductory section of the budget document.¹

During the preliminary hearings with the individual division heads the Financial Controller goes through the estimates and justifications in detail. The most searching questions are asked to insure that the estimates are proper as to object and amount and that justifications are sound and sufficient. Any differences of opinion that cannot be settled at this point are referred to the Chief of Staff and to the

¹Supra, p. 9.

Supreme Commander for decision. The preliminary hearings serve two purposes. In addition to producing the most correct estimates of proposed expenditures the hearings serve to educate the division head and the Financial Controller. The Financial Controller attempts to ask the questions that will be asked by the members of the Budget Committee to show the division head what he can expect in the final hearings. In so doing the Financial Controller gains information for use in conducting the presentation of testimony before the Budget Committee in the final hearings.

As soon as the preliminary hearings are over and the estimates are firm the Financial Controller and the Director of Budget prepare the introductory statements, explanations, and the comparative statement; assemble the individual estimates into one section; and assemble the justifications in an annex to the completed budget document. The completed document is presented to the Supreme Commander for his final approval. It is then mechanically reproduced and mailed. Copies are circulated through the staff to provide all staff personnel with information concerning the budget estimates.

It is important to note that at no time during the preliminary hearings does the Financial Controller make any decisions on estimates other than those for which he has been assigned responsibility as a division head. He must rely on the art of persuasion to obtain what he deems to be the correct decision from the individual division heads or must obtain a final decision from the Supreme Commander.

Budget Review

The Standing Group reviews the budget document as to the military aspects. Witnesses are rarely required for this review since the Standing Group has previous knowledge of the proposed military plans and operations, changes in organization, and personnel allowances.

The Military Budget Committee reviews the budget document in detail. The working group which has the task of making the review may journey to SACLANT Headquarters to hear the witnesses or may require the Financial Controller to present testimony at the NATO Headquarters in Paris. If the hearings are held at SACLANT Headquarters, the Financial Controller acts as chief witness and is assisted by division heads as necessary to explain and defend the estimates and justifications. If the hearings are held in Paris, the Financial Controller must defend the estimates without the assistance of the division heads.

In either procedure the Financial Controller is the designated agent of the Supreme Commander. He is assisted by the Director of Budget and division heads as necessary but such assistance does not relieve him of his responsibility. He must exercise good judgement in explaining the justifications and in presenting additional testimony in response to questions from the members of the Budget Committee. One of his most important attributes is to have a high sensitivity towards the varying national practices and experiences of the different members of the Budget Committee.

Administration of the Budget

The approved budget is the financial plan for the staff, and SACLANT is responsible for its execution. The responsibility for carrying out the details is delegated to the Financial Controller. However, the Financial Controller cannot personally supervise all the details. Some portion of his responsibility is extended to division heads by the provisions of the instructions drafted by the Financial Controller and promulgated by the Supreme Commander.¹ The Financial Controller is responsible for control over the operation of the system outlined in the instructions.

When notice has been received that the Council has approved the budget as recommended by the Budget Committee the Director of Budget prepares a statement of commitment authorization in the budget. This statement indicates by budget format headings and by divisions the proposed estimates and the approved amounts along with remarks to explain the specific restrictions within any heading. The statement is promulgated by SACLANT as an enclosure to a directive to the staff in which instructions for making the commitments are included. By this means the division heads are informed of budget authorization amounts and are given the authority to enter into commitments. No monthly allocation or allotment system is used, but the directive from SACLANT normally indicates that the commitment authority for normal and routine operating expenses will be equal to one-twelfth of the total authorization.

¹Supra, p. 18.

To assist the Financial Controller in managing the Budget the Director of Budget maintains a set of charts of commitments compared with budget authorizations. These charts are in the form of graphs of budget authorizations and commitments accumulated over the year. In the ideal condition the commitment line would coincide with the budget line. In practice, however, the commitment line will increase at about the same rate and will be below the budget line. Extension of the commitment line to the end of the year, after several months have passed, will indicate whether or not the plan is being executed properly.

In addition to the graphic control device a monthly budget status report is prepared by the Director of Accounting. In this statement are reported the budget authority, expenditures, and commitments for the current month; the cumulative budget authority, expenditures to date, and the commitments outstanding; and the total budget authority remaining. Complete distribution to the staff is made to provide information to all those having authority to enter into commitments.

The charts and statements indicate to the Financial Controller any deviations from the budget plan. If the deviations are proportionally large or indicate a failure of the plan, the Financial Controller immediately brings the matter to the attention of the cognizant division head.

Since the charts and statements are prepared on a monthly basis they are inadequate for close control over the commitments. The information from which the charts and

statements are prepared is obtained from the accounting ledgers. These ledgers are maintained on a current basis and are the means for exercising constant control. As the commitments are incurred they are posted to the ledgers and deducted from the available budget authority. When it appears that the balance in one of the headings will be reduced to zero within the current month this fact is reported to the Financial Controller.

CHAPTER V

FINANCIAL ADMINISTRATION

Responsibility

The Supreme Commander is responsible for the financial administration within his command. This responsibility is delegated to the Financial Controller, who, as Chief of the Budget and Finance Division, is charged with establishing and maintaining satisfactory systems of accounting and internal control.

Accounting

The accounting system follows standard commercial methods used in the United States as applied to accounting for municipal governments. A general ledger of accounts, supported by subsidiary ledgers, is maintained by the Accounting Section. The subsidiary ledgers are balanced and closed monthly into the general ledger controlling accounts, which are closed annually. In addition to the usual asset and liability accounts there is included a section for budget authorizations, commitments, and expenditures; a section for contributions, due and received, to the general fund; and a section for contributions, due and received, to the working capital fund.¹

¹Supra, p. 12.

Information to be recorded in the accounts is summarized in a journal voucher, approved by the Director of Accounting prior to posting. The original documents, containing the information for the entry, are stapled to the vouchers, which are numbered and filed in chronological order to facilitate auditing. In addition to the use as posting media for the ledger accounts the vouchers involving payment of expenses are used by the Director of Treasury to authorize the payment from the deposit accounts.

There are no inventory or depreciation accounts in the general ledger.¹ Equipment and supplies are controlled by the Headquarters Services Section² and accounted for by the Headquarters Supply Officer. Accounting is on an item basis and is accomplished through the use of inventory and custody cards.

Treasury

Contributions to the general fund and the working capital fund are deposited to the credit of SACLANT in commercial banks. Withdrawal of funds from the deposit accounts is done by regular bank checks drawn by the Director of Treasury and countersigned by the Financial Controller or designated alternate in his absence. All withdrawals are made in response to an approved journal voucher.

The funds on deposit are kept at a level no higher than necessary to meet the requirements for the immediate future.

¹Supra, p. 10.

²Exhibit III, p. 40.

The excess is invested in United States government securities as recommended by the Director of Treasury and authorized by the Financial Controller.

In addition to the deposit accounts a petty cash fund is maintained for small payments in cash. Part of this fund is held in currency of NATO nations other than the United States in order to satisfy emergency requirements of staff personnel for such currency.

Control of Expenditures

Control over commitments and expenditures of international funds is exercised through the entire staff. Decisions to enter into a commitment are made in the first instance by the division heads. Uneconomical and unnecessary requirements are rejected at this point. Education of the staff personnel in the principles to be considered in making sound decisions is an essential part of the task of the Financial Controller. Ultimate control is the responsibility of the Financial Controller since he is specifically designated to review and approve all requests for material or services.

The procedure for making requests is described in detail in the financial instructions.¹ Those persons authorized to initiate requests for material or services are listed in the instructions. This list is kept as small as possible and is limited generally to division heads with only such others as may be necessary. Requests are initiated on distinctive forms

¹Supra, p. 18.

for material, jobs or services, and alterations or new construction. Approval of requests of less than a specified amount is handled in a routine manner. For requests over the specified amount, for alterations to existing facilities, or for new construction an extra element of control is introduced by requiring approval of the Chief of Staff.

Once the request has been approved it is entered in the accounting ledgers as a commitment against the amount of budget authorization available. After the material or service has been received and the invoice paid entries are made in the ledgers to convert the commitment to an expenditure.

Procurement of the material or service is the responsibility of the Headquarters Supply Officer. Purchases may be made from the governments of any of the NATO nations or from commercial suppliers in any of the NATO nations. In practice the major portion of all requirements is supplied by the United States Navy on a cash sale basis. If the purchase is expected to exceed a specified amount, a formal procedure for contracting is prescribed. Bids are requested with the award made by a committee which includes the Financial Controller. Inspection of the delivered material or service rendered is performed by an officer, other than the Supply Officer, in the Headquarters Services Section. Copies of the initial request, the procurement document, and the certified receipt and inspection report are filed with the original voucher.¹ Although the Financial Controller is not directly responsible

¹Supra, p. 29.

for purchasing, he is responsible for procurement policies and general supervision over the procurement methods to insure compliance with such policies.

Reports

Reports originated in the Budget and Finance Division consist of reports for management purposes and financial statements. Reporting is kept to a minimum consistent with actual requirements. Certain of the reports are made to assist the Financial Controller carry out his tasks, some are made to provide information to the Supreme Commander, and others are made to provide information to higher authority.

The major report is the annual statement prepared by the Accounting Section after the books are closed. The statement includes a balance sheet for both the general fund and the working capital fund with supporting schedules, a summary of receipts and expenditures to show the changes in the cash account, a funding schedule to show the status of the contributions of the NATO nations, and a budget status report. The statement is presented to the Board of Auditors and ultimately is delivered to the North Atlantic Council.

A monthly budget status report¹ is prepared for the information of the Supreme Commander. This statement is also used by the Financial Controller and other staff personnel to assist in controlling expenditures.

A report of the cash balance is made to the Financial

¹Supra, p. 26.

Controller by the Director of Treasury monthly and as may be needed. Included with this report is the recommendation of the Director of Treasury regarding the investment portfolio.

Reports to indicate prospective over-commitments are made to the Financial Controller by the Director of Accounting. Reports to indicate serious changes in the trend of commitments are made by the Director of Budget. Other reports are made to the Financial Controller to provide information he may need or may have called for. This type of report is usually made no more than once or twice.

In addition to the monthly budget status report the Financial Controller makes periodic reports to the Supreme Commander to keep him informed regarding the financial and budgetary operation. Generally these reports summarize the situation, provide an estimate of and recommendations for future operations, point out any serious deviations from the budget plan, or provide the Supreme Commander with other information that he may require.

Auditing

The Deputy Financial Controller is designated to perform all internal audits of the accounts of international funds. To carry out this assignment he makes whatever tests and checks of the accounting, budgetary, and financial records he deems necessary to insure that accurate recording of transactions is being accomplished. He audits the records of the petty cash fund weekly, the bank statements and check records monthly, and all receipt and expenditure vouchers.

The external audit is done annually by the Board of Auditors.¹ In addition to auditing the accounts maintained by the Budget and Finance Division the auditors examine the records of supplies and equipment and the purchasing and contracting procedures under the cognizance of the Headquarters Services Section.

¹Supra, p. 10.

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SACLANT.

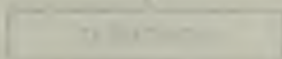
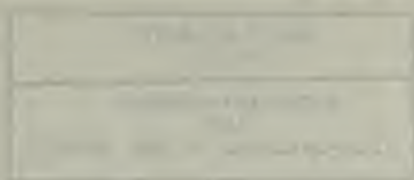
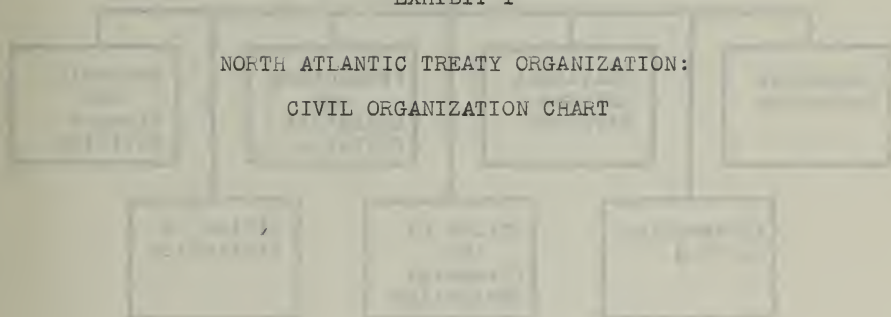
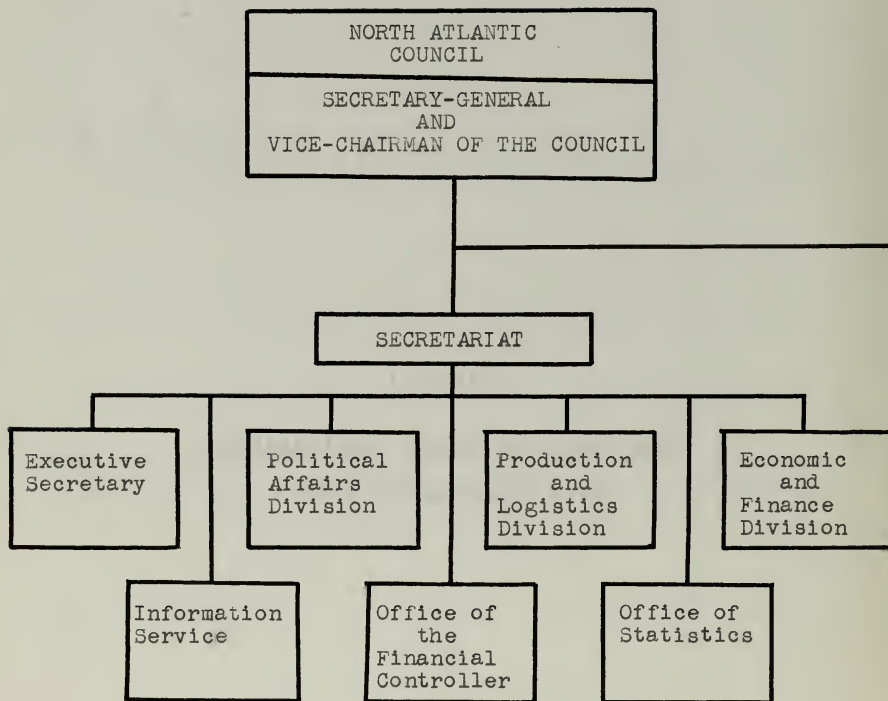


EXHIBIT I

NORTH ATLANTIC TREATY ORGANIZATION:
CIVIL ORGANIZATION CHART





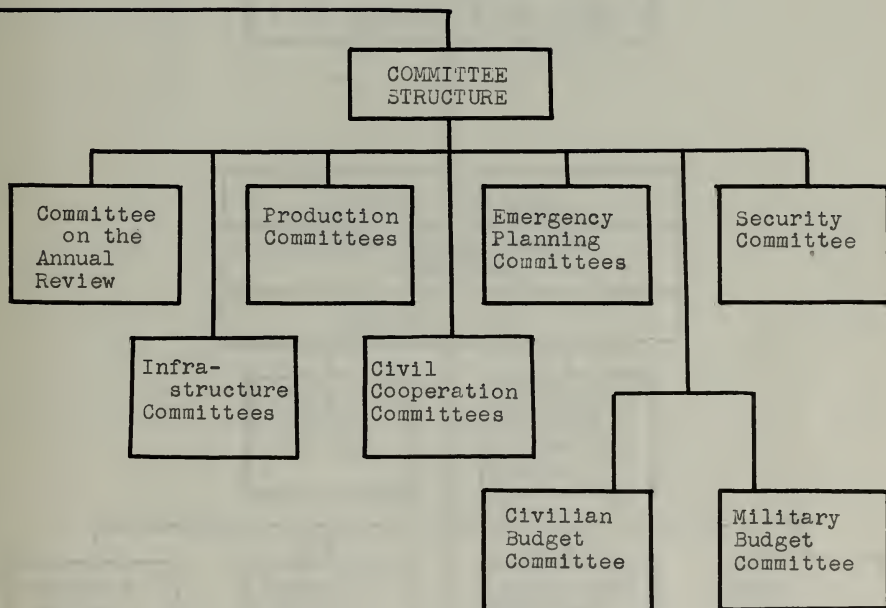


EXHIBIT II

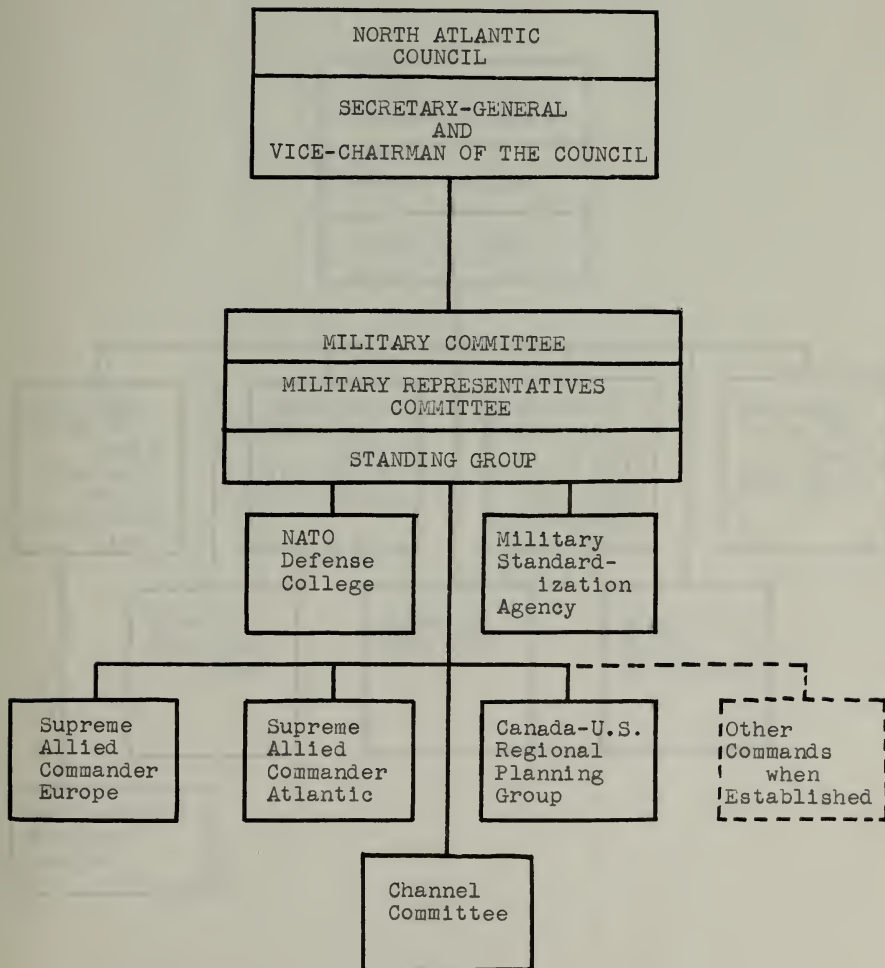
NORTH ATLANTIC TREATY ORGANIZATION:
MILITARY ORGANIZATION CHART

EXHIBIT III

THE SUPREME ALLIED COMMANDER ATLANTIC:

STAFF ORGANIZATION CHART

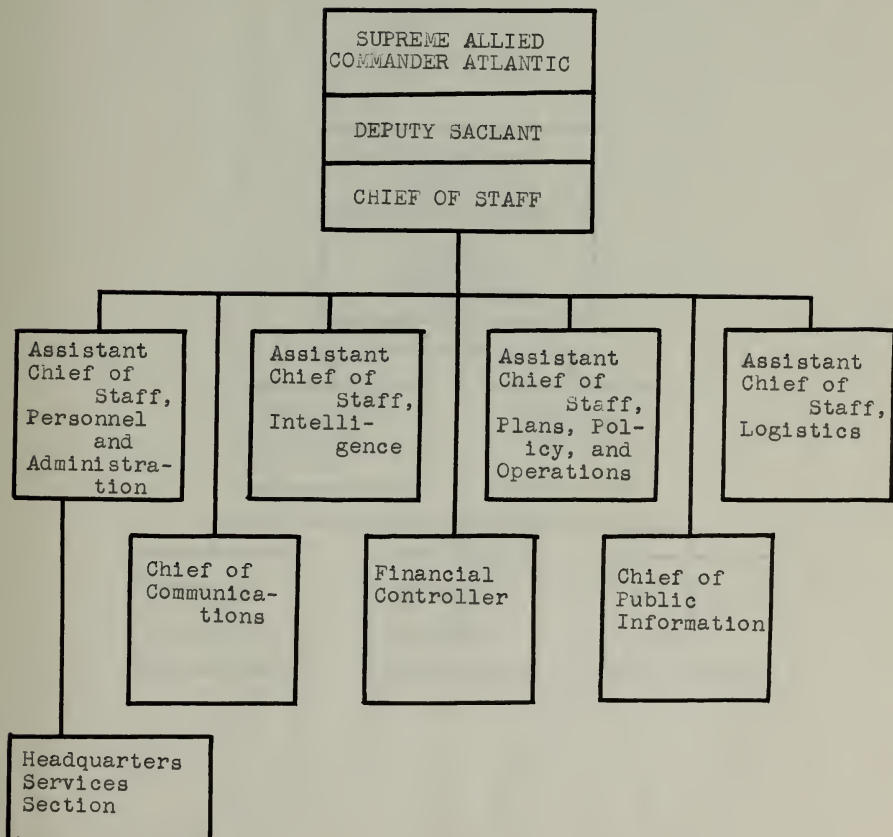


EXHIBIT IV

BUDGET AND FINANCE DIVISION

ORGANIZATION CHART

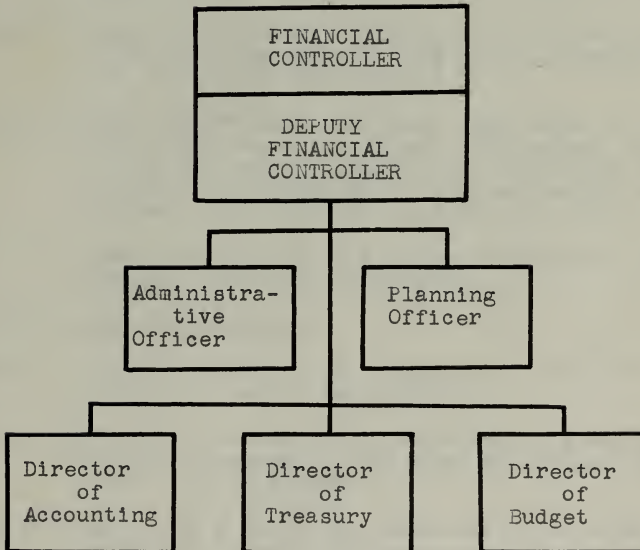


EXHIBIT V

BUDGET FORMAT

Classification of Authorized
International ExpendituresCHAPTER 1 - ADMINISTRATIVE STAFF

- Item 1 - Administrative Assistants: For the salaries of civilian employees (officer equivalent).
- Item 2 - Secretaries, Stenographers, Clerks, and Typists: For the salaries of civilian employees (other than officer equivalent).
- Item 3 - Casual or Temporary Employees: For the salaries of civilian employees, other than permanent, when such employees are required.
- Item 4 - Other Emoluments: Includes such items as head of family allowance, children's allowance, cost of living allowance, installation allowance, residence allowance and such other items as social security, workmen's compensation, and interpreters' allowance.
- Item 5 - Taxes: Provides for taxes on employment where required by host governments.

CHAPTER 2 - OPERATIONAL STAFF

- Item 1 - Custodial Staff: For salaries of civilian employees engaged in janitorial services.
- Item 2 - Utility Personnel: For salaries of civilian employees engaged in building maintenance activities (other than cleaners).
- Item 3 - Supply Personnel: For salaries of civilian employees engaged in procurement, warehousing, and distribution of supplies and materials.
- Item 4 - Communications Personnel: For salaries of civilian employees engaged in communications activities.
- Item 5 - Transportation Personnel: For salaries of civilian employees engaged in transportation activities.
- Item 6 - Mess Personnel: For salaries of civilian mess personnel in messes provided for troops.

Item 7 - Casual or Temporary Personnel: For salaries of casual or temporary personnel engaged in seasonal employment.

Item 8 - Other Emoluments: Includes such items as head of family allowance, children's allowance, residence allowance and such other items as social security, workmen's compensation, and overtime.

Item 9 - Taxes: Provides for taxes on employment when required by host governments.

CHAPTER 11- RENTS AND MAINTENANCE OF PREMISES

Item 1 - Rents: Provides for rental (including taxes) of office space, billets, warehouses, and other rental type buildings. Included also are amounts required to reimburse host governments for symbolic rent required for international use of government owned buildings and facilities.

Item 2 - Taxes: Includes taxes on purchase and other taxes.

Item 3 - Utilities, Including Heating and Lighting: Provides for water, gas, electricity, liquid and solid fuel for heating and lighting, and sewerage disposal.

Item 4 - Purchase of Supplies and Materials: Provides for supplies and materials used in connection with building maintenance (janitorial service) and fire-fighting supplies and materials.

Item 5 - Contractual Service: Provides for contractual service of cleaning and janitorial functions and insect and rodent control.

Item 6 - Maintenance and Repair of Buildings and Facilities: For supplies and contractual services in connection with the maintenance, repair, and minor alteration of buildings and facilities.

CHAPTER 12- OPERATION OF GENERAL SERVICES

Item 1 - Purchase of Office Supplies: For the purchase of stationery and sundry office supplies.

Item 2 - Rental of Office Equipment: Provides for rental of special office equipment required.

Item 3 - Maintenance of Office Furniture and Equipment: Provides for supplies, materials, and contractual services for repair, maintenance, laundry, and dry cleaning of office furniture and equipment. Does not include cost of replacement.

- Item 4 - Printing and Binding: For printing, binding, and reproduction services.
- Item 5 - Cartographic Supplies: For purchases of maps, charts, terrain models, and supplies and materials required in the production of maps, charts, etc.
- Item 6 - Banking Service Charges: For banking service fees required for official financial transactions.
- Item 7 - Library Service and Supplies: For purchase and rental of books, periodicals, reference manuals, supplies and materials, and services for maintenance, upkeep, and repair of libraries.
- Item 8 - Photographic Supplies and Services: Provides for still and motion picture coverage of news and special events, personalities, exercises; film processing, printing supplies, and service; and photographic reproduction and copying service.

CHAPTER 13- COMMUNICATIONS

- Item 1 - Rental of Communications Equipment: For rental of commercial communications equipment when required in addition to available equipment.
- Item 2 - Repair and Maintenance of Telephone and Telegraphic Equipment, Including Supplies and Materials: For the purchase of parts, assemblies, supplies, and equipment required in the maintenance and repair of communications equipment.
- Item 3 - Postage and Postal Services: Covers postage, registry, special delivery fees for official business.
- Item 4 - Telephone and Telegraph Services, Including Installation and Re-installation Charges: For the cost of commercial charges for national and international telephone, telegraph, and teletype circuits.

CHAPTER 14- TRANSPORTATION

- Item 1 - Freight, Cartage, and Express Charges: For freight, cartage, and express charges for international items of supply and material.
- Item 2 - Rental of Non-military Transportation Equipment: For rental of passenger and cargo vehicles.
- Item 3 - Petrol, Oil, and Lubricants: Provides for petrol, oil, and lubricants of vehicles and equipment.

- Item 4 - Repair of Vehicles of SACLANC International Motor Pool: For supplies, materials, and services required to accomplish minor repairs of vehicles and equipment.

CHAPTER 15- TRAVEL

- Item 1 - Transportation of Military and Civilian Personnel Travelling on Official Duty: For commercial costs of travel by land, sea, or air of SACLANC personnel; rental of special mission aircraft; and reimbursement to individuals providing own means of travel at no greater cost than commercial rates.
- Item 2 - Per Diem and Other Allowances of Civilian Personnel Travelling on Official SACLANC Duty: Provides for per diem and other travelling allowances of civilian personnel travelling on official Allied Command duty.

CHAPTER 16- EXPENSES OF THE SUPREME COMMANDER

- Item 1 - Entertainment and Representational Expense of the Supreme Commander: Provides for expenses of Supreme Commander for official entertainment and representation.

CHAPTER 17- INFORMATION AND EDUCATION

- Item 1 - Newspapers, Books, Magazines, Brochures, and Posters: For purchase of representative newspapers, books, magazines, digest services, wire services; for publication of brochures, leaflets, and pamphlets; and for information and intelligence activities.
- Item 2 - Radio Time, Scripts, and Other Services Related to Information Activities: For the purchase of radio time, scripts, and other services related to information activities in radio, television, or motion picture activities.

CHAPTER 18- EXERCISES AND TRAINING

- Item 1 - Training Aids: For the purchase or production of training films, manuals, or other model training aids for distribution to National Governments.
- Item 2 - Expenses of Allied Command Headquarters Participating in Exercises: For common costs directly related to the Allied Command training exercises.

CHAPTER 20- CONTINGENCIES

- Item 1 - Claims for Losses by Fire, Theft, and Other Damages: Provides for payment of claims for fire and theft; losses by fire, theft, windstorm, etc.;

and cost of insurance.

- Item 2 - Legal Expenses: Provides for employment of official legal representation in civil courts actions, legal fees, and documentation costs.
- Item 3 - Minor Miscellaneous Expenses: For contingencies not otherwise foreseen, absorption of new activities on a temporary basis, and confidential intelligence expenditures which for security reasons should not be subject to public accounting.
- Item 4 - Planning Agencies.
- Item 5 - Losses on Exchange: For currency exchange losses in the conduct of official business.

CHAPTER 31- CONSTRUCTION

- Item 1 - New Construction: For all expenses connected with preparation and construction of buildings and facilities.
- Item 2 - Rehabilitation, Modification, and Alteration of Buildings and Facilities: For all expenses connected with rehabilitation, modification, and alteration of buildings and facilities.

CHAPTER 32- COMMUNICATIONS

- Item 1 - Cost of Installation of Fixed Communications Equipment: For procurement and installation of communications equipment.

CHAPTER 33- FURNITURE AND EQUIPMENT

- Item 1 - Purchase of Office Furniture and Equipment: For purchase of office furniture and equipment.
- Item 2 - Other Furniture and Equipment: For purchase of furniture and equipment for use in other than offices.
- Item 3 - SACLANT Motor Pool: For purchase of automotive equipment.

